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SUBJECT: TREASURY DAS MCDONALD AND CHILEAN MINISTER OF PUBLIC WORKS
BITAR AGREE ON NEXT STEPS FOR IFEC

REF: Santiago 816

11. (SBU) SUMMARY: Treasury DAS McDonald and Minister of Public Works Sergio Bitar agreed, September 30, on next steps to build an Infrastructure Finance Expert Corps with U.S. and Chilean experts. END SUMMARY.

12. (U) Ambassador Simons, U.S. Treasury DAS Larry McDonald, Treasury Associate Director for Technical Assistance Debra von Koch, Director for Western Hemisphere Luyen Tran, Advisor for Technical Assistance Harry Tether, Western Hemisphere Economist Rachel Jarpe, Econoff, and Econ Specialist attended a meeting, September 30, with Chilean Minister of Public Works Sergio Bitar, Coordinator for Public Infrastructure Projects Gonzalo Cordua, International Coordinator Rigoberto Garcia, Chile's Agency for International Cooperation, Bilateral Cooperation Chief, Enrique O'Farrill-Julien, and Program Coordinator Ivan Mertens Galle.

USG And Chile Ready To Move Forward With IFEC

13. (SBU) DAS McDonald explained his visit demonstrated the USG's readiness to move forward in building the Infrastructure Finance Expert Corps (IFEC), agreed to by Treasury A/S Lowery and Minister Bitar September 1. The IFEC would bring U.S. and Chilean experts together to provide technical assistance on building infrastructure to countries in the region. He underlined Chile's impressive history of using public private partnerships (PPP's) and concession models to help finance infrastructure. This experience would be critical in forming the IFEC. The Treasury delegation had spent the last day and a half in Santiago finding out more about Chile's concession process. They had met with Banco de Chile, Banco Estado, the Association of Private Concession Holders, the Chamber of Construction, the UN Economic Commission for Latin American and the Caribbean (CEPAL/ECLAC), and the Association of Private Pension Funds.

14. (SBU) DAS McDonald related that the Treasury's Office of Technical Assistance had a wealth of experience in: budget policy and management, financial institutions policy and management, government debt issuance and management, financial enforcement (including combating terrorism finance), and tax policy and administration. OTA has representatives in 70 countries around the world (with almost one half of those in the Western Hemisphere). DAS McDonald recognized the U.S. lacked the historical experience of

PPP's and concessions.

15. (SBU) Minister Bitar agreed it was time to progress to the next stage of setting up the IFEC. He acknowledged that the Ministry of Public Works (MOP) together with the Ministry of Finance had established a successful concession model for Chile. Chile's private sector had significant experience in building public infrastructure and some of the world's largest infrastructure companies were currently at work in the country. The GOC wanted to provide this expertise to other countries in the region, through the Chilean Agency for International Cooperation (AgCI). Many countries had already come to Chile to learn about the model. MOP was organizing a November 9-10 conference for regional, infrastructure ministers in cooperation with ECLAC. Bitar invited Treasury representatives to participate.

Priority Countries And A Working Group

16. (SBU) Minister Bitar made three key proposals: 1) IFEC should concentrate on Latin America, 2) Treasury and MOP should choose one or two countries for an IFEC test project, 3) they should also determine if technical cooperation would be best achieved through exchanges or on-site projects. Bitar suggested candidate countries for IFEC test projects should meet four minimum conditions. A country should have: 1) institutions that can evolve in a way necessary to support the concessions process, 2) a minimum financial strength or set of financial institutions, 3) a small size to facilitate coordination, and 4) Spanish or English language. Chile had been engaged in Central America for some time and one of the nations in that region might prove an attractive candidate.

17. (SBU) DAS McDonald agreed with Minister Bitar's points and noted the particular importance of legal structures and financial strength. He suggested the formation of an IFEC Working Group, comprised of those represented at the meeting. McDonald noted he thought Costa Rica, the Dominican Republic, Guatemala, Honduras, and Paraguay all fit Bitar's criteria. DAS McDonald noted these countries also had Treasury advisors (save Guatemala, which had requested one). This factor could help Treasury maximize existing resources to assist in starting up the IFEC. DAS McDonald had come to Chile after visits to Guatemala and Honduras where there was great interest in working with the IFEC.

18. (SBU) Gonzalo Cordua agreed to the formation of the IFEC Working Group. He said the World Bank and Inter-American Development Bank had a significant presence in Central America including several Chilean experts who could be helpful in an IFEC test project. Enrique O'Farrill-Julien noted that AgCI maintained assistance projects in all 5 candidate countries. He highlighted Paraguay as a priority for Chile because of its new democratic government and the need to strengthen institutions there.

Operational Constraints And Considerations

19. (SBU) DAS McDonald asked about using experts from MOP's Department of Concessions in future IFEC projects. Cordua underlined the importance of providing public sector actors with the knowledge and capability (which they often lacked) to negotiate skillfully with private sector counterparts on infrastructure projects. MOP had some experience in this area, but it might prove difficult to include their personnel in an IFEC project. Department of Concessions employees were all on contract from the private sector and by law were only paid according to their work on specific concessions. They could not be "loaned-out" to a long-term project, especially at their private sector salaries (i.e., pro bono work outside of Chile would be extremely hard to do). Cordua undertook to see if there was a workaround that MOP could use to overcome these hurdles.

110. (SBU) Cordua explained MOP worked mostly with a group of 10-15 foreign, private companies interested in participating in concessions in Chile. Those companies were not as interested in working with other countries in the region, save Mexico or Brazil. In addition, Costa Rica was the only investment grade country among the five candidates. That meant private Chilean pension funds would only be able to invest in infrastructure projects in Costa Rica and

only with insurance from an international provider (in accordance with Chilean law). This would likely be a requirement for many non-Chilean investors in the region as well. A guarantee from the World Bank might allow for funding projects in non-investment grade countries. This might prove a significant obstacle given the small size of financial markets in the countries under discussion.

¶11. (SBU) DAS McDonald suggested a joint roll-out of the IFEC after selection of a test project and country, perhaps in both Washington and Santiago. He also warned that the group should be prepared to manage "too much demand" from candidate countries. Both Treasury and MOP/AgCI undertook to request more resources for IFEC in the budgetary process, though AgCI warned this would be difficult given Chile's 2009 Budget Proposal was already published (and reflected a tightening in the GOC's fiscal policy). At a future meeting, the group might consider a joint-demarche to the Inter-American Development Bank. Director Tran noted the USG was already planning for the Summit of the Americas's. The new U.S. president and President Bachelet could highlight the IFEC at this venue, showing both nations' commitment to regional development.

IFEC: Next Steps

¶12. (SBU) DAS McDonald and Director Tran ended the meeting by summarizing what Treasury, MOP, and AgCI had agreed to do by the next meeting of the IFEC working group.

- Both Treasury and MOP/AgCI would rank order the five candidate countries and select top choices before the MOP-ECLAC Infrastructure Conference (November 9-10).
- Treasury officials would meet with multilateral organizations (e.g., World Bank) in Washington to brief on the concept of the IFEC.
- Treasury would draft an outreach document and a scope model.
- AgCI would provide a list of its ongoing projects in the region to Treasury.
- USG and GOC officials would raise the IFEC concept at the October 11 meeting of Finance Ministers in Washington (on the margins of the World Bank/IMF Meetings).
- Treasury and MOP would arrange exploratory trilateral meetings with possible candidate countries during the MOP-ECLAC Infrastructure Conference in Santiago.
- The USG and GOC would investigate readying the IFEC as a deliverable at the Summit of the Americas in Spring 2009.
- Treasury and MOP would schedule joint-visits to the agreed candidate countries for test project planning.

¶13. (U) Treasury has cleared this message.
SIMONS